

VZCZCXRO5643

RR RUEHCD RUEHGD RUEHHO RUEHMC RUEHNG RUEHNL RUEHRD RUEHRS RUEHTM  
DE RUEHME #0815/01 0791554  
ZNR UUUUU ZZH  
R 201554Z MAR 09  
FM AMEMBASSY MEXICO  
TO RUEHC/SECSTATE WASHDC 5691  
INFO RUEHXC/ALL US CONSULATES IN MEXICO COLLECTIVE  
RHMFIUU/DEPT OF JUSTICE WASHINGTON DC  
RUEHC/DEPT OF LABOR WASHINGTON DC  
RUEATRS/DEPT OF TREASURY WASHINGTON DC  
RUCPDOG/DEPT OF COMMERCE WASHINGTON DC  
RHMFISS/CDR USSOUTHCOM MIAMI FL  
RHMFIUU/HQ USNORTHCOM  
RUEAHLA/DEPT OF HOMELAND SECURITY  
RUEABND/DEA HQS WASHINGTON DC  
RHEHAAA/NSC WASHINGTON DC

UNCLAS SECTION 01 OF 03 MEXICO 000815

SENSITIVE  
SIPDIS

E.O. 12958: N/A

TAGS: [PGOV](#) [PREL](#) [PINR](#) [MX](#)

SUBJECT: SCENESETTER FOR THE VISIT OF CODEL REYES, SKELTON,  
AND BERMAN TO MEXICO, MARCH 26-27, 2009

11. (SBU) Mission Mexico welcomes you to Mexico City. Mexico is key to USG success in combating the trafficking of drugs, persons, arms and precursors, terrorism, and other transnational threats. Your visit is an opportunity to underscore the broad, deep relationship between the U.S. and Mexico and, in particular, our appreciation for President Calderon's demonstrated leadership in the area of security. Committed to an ambitious security and development economic agenda, Calderon seeks to maintain the upper hand in the battle against narcotics trafficking as his highest priority in early 2009.

#### MEETING SECURITY CHALLENGES

-----

12. (SBU) Drug-related violence in Mexico continues unabated. 2008 set a new record for organized crime-related homicides with more than 6000 killings, including 525 military and law enforcement officers. The upsurge last year was partly a result of increased pressure on Mexico's cartels from President Calderon's aggressive push against them, and partly a result of their vicious battle for control of trafficking routes to the U.S.

13. (SBU) Despite these challenges, President Calderon remains committed to combating organized crime and improving the country's security situation through aggressive law enforcement and military deployments, as well as reforming the country's police and judicial institutions. President Calderon is running joint military-law enforcement anti-narcotic operations in ten states, and upwards of 40,000 troops are specifically involved in counter-drug activities. He has raised pay for the military and replaced a number of high-ranking law enforcement officials in an anti-corruption campaign. He has increased the budget of the security forces each year since he took office, including a dramatic increase in the current budget. The President, in coordination with other political parties, also ushered through Congress four important security and justice reform packages that, if appropriately implemented, will help to modernize and restructure the country's justice system, as well as improve and better coordinate Mexico's disparate police forces.

14. (SBU) Calderon's efforts have produced results. In 2008, over 19 metric tons of cocaine have been seized, as well as 1,650 metric tons of marijuana and 341 kilos of methamphetamine. This is on the heels of record seizures in 2007: 48 metric tons of cocaine, 2,194 metric tons of marijuana, and 932 kilos of methamphetamine. Arms seizures are up from 4,220 weapons seized in 2006 to 9,550 seized in

2007 and 20,235 from January to October 2008.

#### HIGH STAKES FOR SECURITY OFFICIALS

-----

¶5. (SBU) The human price Mexico has paid has been high: in 2008, over 520 police and military officials were killed. Mexican political leaders are not shy about reminding us that U.S. demand for drugs, money laundering, and illegal arms flows from our side of the border help fuel Mexico's drug war, and have been vocal in criticizing comments from the United States suggesting that Mexico is close to a "failed state."

#### MEXICO'S ECONOMY IN THE GLOBAL CRISIS

-----

¶6. (SBU) Mexico's macroeconomic policy is well-managed; however, the global crisis has pushed Mexico into recession. Exports, industrial output, remittances from abroad and foreign direct investment all are decreasing, while unemployment and inflation are on the rise. The peso has depreciated 50 percent against the dollar in the past year, and oil production - a major source of revenue for the GOM - is declining steadily. Calderon's stimulus package is not protectionist; it includes tax incentives for businesses, subsidies to shore up and boost employment, and a multi-billion-dollar infrastructure development plan. However, these initiatives may not be enough to pull out of recession. As 82 percent of Mexico's exports are destined for the United States and we are Mexico's largest foreign

MEXICO 00000815 002 OF 003

direct investor, the future of Mexico's economy depends heavily on the future of our own.

¶7. (U) The Calderon administration has registered some impressive accomplishments since 2006, however. The President secured quick congressional approval of the 2007, 2008, and 2009 budgets and won passage of an unpopular but necessary government workers' social security reform. In the last year, Congress also approved a tax reform that will boost government revenues and a modest package of modernizing reforms to Mexico's state-run energy company, PEMEX.

#### POLITICAL LANDSCAPE

-----

¶8. (SBU) In addition to growing concerns over the economy, crime and violence, the president and his party face a hardening political environment here in advance of legislative and key gubernatorial elections later this year. All three of the main political parties in the legislature have their eyes on the bellwether 2009 elections, and the Institutional Revolutionary Party (PRI), in particular, is expected to make gains. The window of opportunity to effectively cooperate with a divided congress on major reform initiatives is rapidly closing.

#### THE U.S. -- MEXICO RELATIONSHIP

-----

¶9. (U) Calderon has demonstrated pragmatism in his posture toward the United States and bilateral cooperation across a wide range of issues, particularly on law enforcement, has never been stronger. The President has significantly expanded the number of criminal extraditions to the U.S., instructed key members of his security team to engage their USG counterparts fully and worked closely with us to develop a joint approach to counter-narcotics, which includes efforts to combat arms trafficking, bulk cash smuggling, and corruption, through such measures as the Merida Initiative.

¶10. (SBU) The Merida Initiative represents an historic opportunity for the U.S. and Mexico to jointly face the challenges posed by organized crime across our border. The

U.S. is assisting Mexico this year with \$400 million in assistance programs, which includes a mix of funding: INCLE administered by our Narcotics Affairs Section; Economic Support Funds administered by USAID; and Foreign Military Financing administered by the Office of Defense Cooperation. The package includes funding for:

-- Non-intrusive inspection equipment, ion scanners and canine units for Mexico to interdict trafficked drugs, arms, cash, and persons.

-- Technologies to improve and secure communications systems that collect criminal information, including biometric data, as well as continued support to expand Plataforma Mexico, a program that facilitates information and intelligence exchanges among the country's law enforcement agencies.

-- Technical advice and training to strengthen the institutions of justice -- vetting for the new police force, case management software to track investigations through the system, new offices of citizen complaints and professional responsibility, and witness protection programs.

-- Helicopters and surveillance aircraft to support interdiction activities, and rapid response of law enforcement agencies and supporting military forces.

#### Key Issues

-----

11. (SBU) President Calderon may speak to a number of areas, including where he would like the U.S. to do more:

--Senior GOM officials, including President Calderon, have expressed concern about the length of time it has taken to begin implementation. We will continue to work closely with our counterparts here to pick up the pace and to ensure the program has the greatest possible impact. We appreciate

MEXICO 00000815 003 OF 003

Calderon's political courage to partner with the U.S. and Central America on this initiative. GOM officials will also be interested in discussing future funding for Merida.

-- Arms trafficking: The Department of Homeland Security's Immigration and Customs Enforcement (DHS/ICE) works closely with its counterparts in the Government of Mexico, but the GOM continues to press for more integrated and coordinated actions. With violence rising to unprecedented levels and reports indicating that over 90 percent of cartel weaponry coming from the U.S., President Calderon will surely raise his concern about the flow of arms south.

-- Money laundering/smuggling: The illicit drug trade is the main source of funds laundered through the Mexican financial system, though other major sources include corruption, kidnapping and trafficking in firearms. President Calderon is committed to improving interdiction of bulk cash smuggling, by further empowering Customs agents, for example. The GOM may look for expanded controls on our side of the border in addition to the interagency training and support assistance we are providing.

-- Drug demand: Calderon has recently spoken publicly to how the U.S. appetite for drugs drives Mexico's present-day security challenges. He is looking for the U.S. to rededicate itself to combating drug demand at home.

-- NAFTA: Many commentators have contrasted the approach of President Obama and President Calderon on the question of NAFTA. In their first meeting on January 12 in Washington, whereas Calderon expressed a desire to build on NAFTA, some perceived Obama as wanting to revisit the current treaty to strengthen labor and environmental standards. Mexican Congressional opinion on the subject of renegotiation is mixed. While some would like to find out more details as

they believe renegotiation could hurt Mexico, others suggest that renegotiation of the treaty on labor and environmental issues is doable.

--Other trade irritants: Since the congressional vote to end the cross-border trucking demonstration project, Mexican carriers operating in the U.S. have ceased operations, while Mexico will allow currently-authorized U.S. carriers to continue to operate in Mexico. Consistent with a 2001 NAFTA arbitration panel ruling, Mexico announced 17 March that it would retaliate against \$2.4 billion in U.S. goods. The list of targeted products, which went into effect 19 March, notably steers clear of several major exports, including beef, pork, and corn syrup. The 89 affected products range from potatoes and onions to wine and deodorant. The GOM has left the door open to modify the list to apply or reduce pressure as warranted. President Calderon has warned in recent speeches against a turn to protectionism, but has not commented publicly on trucking or retaliation. Mexico may be receptive to a U.S. overture to establish a replacement trucking program, but will be looking for a firm implementation timeline and a new program that is broader than the canceled pilot.

Visit Mexico City's Classified Web Site at <http://www.state.sgov.gov/p/wha/mexicocity> and the North American Partnership Blog at <http://www.intelink.gov/communities/state/nap/> / BASSETT